April 28, 2022

Sterlite Technologies Limited: Ratings reaffirmed; outlook revised to Negative from Stable; rated amount enhanced; rating withdrawn for Rs. 150-crore NCD programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short Term – Commercial Paper	800.00	800.00	[ICRA]A1+; reaffirmed
Long Term – Non-Convertible Debentures	150.00	0.00	[ICRA]AA (Negative); reaffirmed and withdrawn; outlook revised to Negative from Stable
Long Term – Fund Based – Working Capital	705.00	931.00	[ICRA]AA (Negative); reaffirmed/assigned; outlook revised to Negative from Stable
Long Term – Fund Based – Term Loan	168.00	295.00	[ICRA]AA (Negative); reaffirmed/assigned; outlook revised to Negative from Stable
Long Term – Fund Based – Term Loan	25.15 (million Euros)	25.15 (million Euros)	[ICRA]AA (Negative); reaffirmed; outlook revised to Negative from Stable
Short Term – Non-Fund Based	2885.00	3433.00	[ICRA]A1+; reaffirmed
Long Term/Short Term – Interchangeable	(750.00)	-	-
Long Term/Short Term – Unallocated	217.00	16.00	[ICRA]AA (Negative)/[ICRA]A1+; reaffirmed; outlook revised to Negative from Stable
Total	**4925.0 + 25.15 million Euros**	**5475.00 + 25.15 million Euros**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the outlook for the long-term rating of Sterlite Technologies Limited (STL) factors in the estimated moderation in the debt coverage and profitability metrics in FY2022 with a meaningful recovery only over the medium term. STL's operating margin weakened in 9M FY2022 to 10.6% (16.8% in FY2021) on account of a one-time provision of ~Rs. 200 crore, increase in raw material and logistics costs, operating cost incurred for a new venture as well as team expansion in the US and the UK for scaling up international operations. Further, STL's leverage levels have increased and the debt protection metrics have witnessed some moderation in FY2022 because of the increased requirement for working capital, partly funded from the extended credit period by suppliers, and the debt-funded capex undertaken for capacity expansion and acquisition (Clearcomm Group) during the fiscal.

The ratings are constrained by the elongated working capital cycle with NWC/OI in FY2021 increasing to 34% (PY: 27%) on account of a higher gross working capital cycle (inventory days + debtor days) of 179 days compared to 160-170 days over FY2018-FY2020 in addition to the higher quantum of contract assets (unbilled revenues) at Rs. 1,321 crore (PY: Rs. 744 crore). The company faces intense competition in the telecom cable industry due to the presence of big global players with a diversified manufacturing base.

The ratings, however, continue to factor in the STL's position among the leading players in the telecom cable industry with sizeable manufacturing capacities, integrated nature of operations and presence across the industry value chain (from pre-form manufacturing to software solution/network integration). These factors have enabled the company to sustain its scale of operations and a strong market position. The company has a healthy order book of Rs. 11,731 crore (i.e. 2.4 times of previous year's OI) as of December 2021, which provides revenue visibility over the medium term. Moreover, the demand for STL's products/services has increased, driven by capex by major telcos globally towards 5G rollout and by domestic telcos/corporates towards network strengthening in light of the increasing level of digitisation. The healthy order book and robust demand are expected to drive the company's revenue growth over the next few years. Additionally, the ratings continue to factor in STL's geographically diversified revenue mix with sizeable revenue contribution from exports and its diverse customer base.

The rating for NCD has been withdrawn as the instrument has been fully redeemed and there is no amount outstanding against the said facility.

Key rating drivers and their description

Credit strengths

Leading player in telecom cable industry – STL is a leading player in the Indian optical fibre (OF) and optical fibre cable (OFC) market with a sizeable market share, significant manufacturing capacities and integrated nature of operations. Over the years, the company has enhanced its manufacturing capacities and widened its service offerings/geographic presence through in-house development and acquisitions globally. As a result, it has been able to develop a presence across the industry spectrum, providing products as well as end-to-end services for network integration/software solutions. STL has developed a strong global footprint in recent years and its revenue mix is fairly diversified across geographies such as India (44% in 9M FY2022), Europe (34% in 9M FY2022), America (13% in 9M FY2022) and the balance to other countries. The company is also focused on increasing its presence in the US and Europe — whose revenue contribution is expected to increase going forward.

Integrated nature of operations boosts profit margins – STL is a fully-integrated player with presence across the industry value chain. It manufactures glass preforms from silica, which are used to manufacture OF. Moreover, the OF is consumed internally to manufacture OFC, which provides cost competitiveness and boosts the company's profitability. To provide for its future growth, the company has already enhanced its OF capacity in FY2020 and is in the process of increasing its OFC capacity from 33 mfkm to 42 mfkm, which is expected to be completed in FY2023. Also, as a part of its forward integration strategy, STL has recently acquired an UK company — Clearcomm Group (acquired for ~ GBP 15.5 million) — which provides end-to-end network integration solutions and capabilities in the UK.

Favourable long-term demand outlook; strong order book provides revenue visibility – STL had a healthy order book of Rs. 1,1731 crore as of December 2021, which provides revenue visibility over the medium term. Moreover, the demand for STL's products/services has increased, driven by capex by major telcos globally towards 5G rollout and by domestic telcos/corporates towards network strengthening in light of the increasing level of digitisation. The healthy order book and increased demand are expected to drive the company's revenue growth over the next few years.

Diversified customer base in domestic and international markets – STL has been able to develop a wide customer base, given its established track record of operations, diverse product/service offerings and a global footprint. This includes reputed companies, ranging from telcos and Government agencies to private organisations and cloud networking companies.

Credit challenges

Expected moderation in operating margins in FY2022 - STL's operating profit margin (OPM) moderated to 16.8% in FY2021 (PY: 20.8%) on account of lower international optical fibre prices in addition to stabilisation costs associated with the augmented capacities. Further, the OPM moderated to 10.6% in 9M FY2022 on account of a one-time provision of ~Rs. 200

crores, increase in raw material prices and logistic costs, operating cost incurred for new ventures as well as team expansion in the US and the UK for scaling up international operations. STL's operating margin is estimated to remain muted in FY2022 in the backdrop of commodity headwinds and investments for scaling up new businesses globally with some improvement in FY2023 even as it would continue to be lower than the FY2021 levels.

Elongated working capital cycle - STL's working capital intensity increased in FY2021 with NWC/OI rising to 34% (PY: 27%) on account of a higher gross working capital cycle (inventory days + debtor days) of 179 days in FY2021 compared with 160-170 days during FY2018-FY2020 in addition to the higher quantum of contract assets (unbilled revenues) at Rs. 1,321 crore (PY: Rs. 744 crore). The higher gross working capital cycle was mainly because there were delays in receiving payments in the services segment as the counterparties were majorly Indian PSUs while increase in contract assets was because STL had entered into new contracts during the year and provided more services ahead of the agreed billing timelines for fixed price contracts. Going forward, in the medium term, the company plans to reduce the share of the services business and expects a normalised projects execution situation which would allow the working capital intensity to reduce from the current levels.

Moderation in coverage indicators with increased borrowings - STL's debt levels have increased and the debt protection metrics have witnessed some moderation in FY2021 and H1 FY2022. The company's net debt increased to Rs. 2,814.8 crore as on September 30, 2021 from Rs. 1,970 crore in FY2020, mainly to fund the capex requirements and the acquisition of Optotec and the Clearcomm Group in addition to the increased working capital intensity. Higher debt levels in FY2021 resulted in a moderation of debt metrics with a net gearing of 1.2 times (PY: 1.0 times), interest cover of 4.0 times (PY: 4.8 times) and net debt/OPBIDTA of 3.0 times (PY: 1.8 times). Moreover, the increase in total debt in H1 FY2022 resulted in a further moderation of the leverage with a net gearing of 1.4 times. While the debt metrics are likely to moderate further from the FY2021 levels in FY2022 on account of the higher debt levels and lower OPBIDTA, the capitalisation and coverage indicators are expected to improve from FY2023 onwards with the likely expansion of OPBIDTA. The company is also contemplating raising equity funds to reduce borrowings and fund its growth plans.

Intense competition in the industry – The company derived ~56% of the revenues in 9M FY2022 from the export markets, where big global players have an established presence. Though STL enjoys cost-competitive manufacturing, the stiff competition limits its pricing flexibility. The company is focusing on the organic and inorganic routes to gain traction in new geographies and value-added services as well as mitigate pricing pressure in the relatively commoditised OF/OFC segment.

Liquidity position: Adequate

STL's liquidity remains adequate, supported by steady internal generation, free cash/liquid investments ~Rs. 540 crore and cushion in the form of undrawn bank lines of Rs. 800 crore as of March 2022-end (against drawing power). The ongoing capex programme towards capacity expansion is expected to be concluded in the current fiscal and no further major capex is expected in the medium term. STL's cash accrual generation is expected to be sufficient to meet its debt servicing obligations over the medium term.

Rating sensitivities

Positive factors – Given the negative outlook, a rating upgrade is unlikely in the near term. A favourable rating action can be taken if there is a substantial improvement in the scale of operations along with an improvement in the capital structure and coverage indicators, with total debt/OPBDITA below 1.0 times and TOL/TNW below 1.5 times on sustained basis.

Negative factors – A substantial decline in operating profitability due to a global supply-demand mismatch, which could result in operating margin sliding below 15% on sustained basis; large debt funded investments thereby deteriorating capital structure, such that Net Debt/OPBDITA below 2.0x, TOL/TNW exceeds 3.0x in FY2023 could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Policy on Withdrawal of Credit Ratings
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company

About the company

STL, formerly Sterlite Optical Technologies Limited (SOTL), was established in July 2001 after the demerger of the telecom division of Sterlite Industries Ltd (SIL). In July 2006, STL acquired the transmission line business of SIL to foray into the power transmission cables business. The company has grown over the years to become the largest OF and OFC manufacturer in the country. It also has an established presence in the global OF market. ICRA has consolidated the operational and financial profiles of STL, its subsidiaries and joint ventures for the analysis. The company, on a consolidated basis, has an OF manufacturing capacity of 50 mfkm and an OFC capacity of 33 mfkm (in the process of being enhanced to 42 mfkm).

In FY2021, the company reported a net profit of Rs. 254.1 crore on an operating income (OI) of Rs. 4,825.2 crore compared to a net profit of Rs. 432.7 crore on an OI of Rs. 5,154.4 crore in the previous year. The company has reported OI of Rs. 4,172.3 crore in 9M FY2022 with a net profit of Rs. 55.6 crore.

Key financial indicators

	FY2020	FY2021	9MFY2022 Provisional
Operating Income (Rs. crore)	5154.4	4825.2	4172.3
PAT (Rs. crore)	432.7	254.1	55.6
OPBDIT/OI (%)	20.8%	16.8%	10.6%
PAT/OI (%)	8.4%	5.3%	1.3%
Total Outside Liabilities/Tangible Net Worth (times)	2.6	2.9	-
Net Debt/OPBDIT (times)	2.0	3.1	-
Interest Coverage (times)	4.8	4.0	2.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2022 (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020		
					Apr 28, 2022	Apr 29, 2021	-	Mar 05, 2020	Nov 14, 2019	May 03, 2019
1	Commercial Paper	Short Term	800.00	500.00	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Non-Convertible Debenture Programme	Long Term	150.00	-	[ICRA]AA(Negative); Withdrawn	[ICRA]AA(Stable)	-	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)
3	Working Capital Facilities	Long Term	931.00		[ICRA]AA(Negative)	[ICRA]AA(Stable)	-	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)
4	Term Loan	Long Term	295.00	295.00	[ICRA]AA(Negative)	[ICRA]AA(Stable)	-	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)
5	Term Loan	Long Term	25.15*	25.15*	[ICRA]AA(Negative)	[ICRA]AA(Stable)	-	-	-	-
6	Non-Fund based facilities	Short Term	3433.00		[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Unallocated Limits	Long Term/Short Term	16.00		[ICRA]AA(Negative)/ [ICRA]A1+	[ICRA]AA(Stable)/ [ICRA]A1+	-	[ICRA]AA(Negative)/ [ICRA]A1+	[ICRA]AA(Stable)/ [ICRA]A1+	[ICRA]AA(Negative)/ [ICRA]A1+

million euros

Complexity level of the rated instrument

Instrument	Complexity Indicator
Commercial Paper	Very Simple
Working Capital Facilities	Simple
Term Loan	Simple
Term Loan	Simple
Non-Fund based facilities	Very Simple
Unallocated Limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE089C14BQ8	Commercial Paper	28-Jan-2022	4.60%	28-Apr-2022	100.00	[ICRA]A1+
INE089C14BR6	Commercial Paper	08-Feb-2022	4.65%	02-May-2022	100.00	[ICRA]A1+
INE089C14BS4	Commercial Paper	18-Feb-2022	4.80%	19-May-2022	100.00	[ICRA]A1+
INE089C14BT2	Commercial Paper	22-Feb-2022	4.60%	23-May-2022	50.00	[ICRA]A1+
INE089C14BU0	Commercial Paper	11-Mar-2022	4.90%	30-May-2022	50.00	[ICRA]A1+
INE089C14BV8	Commercial Paper	14-Mar-2022	4.90%	13-June-2022	100.00	[ICRA]A1+
Not placed	Commercial Paper	NA	NA	NA	300.00	[ICRA]A1+
INE089C07091	NCD	27-Mar-2018	8.70%	Mar-2023	150.00	[ICRA]AA(Negative); Withdrawn
NA	Working Capital Facilities	NA	NA	NA	931.00	[ICRA]AA(Negative)
NA	Term Loan	Jan-2014	NA	Mar-2024	95.00	[ICRA]AA(Negative)
NA	Term Loan	Oct-2021	NA	Oct-2023	200.00	[ICRA]AA(Negative)
NA	Term Loan	December 2020	NA	March 2027	25.15 million euros	[ICRA]AA(Negative)
NA	Non-Fund based facilities	NA	NA	NA	3433.00	[ICRA]A1+
NA	Unallocated Limits	NA	NA	NA	16.00	[ICRA]AA(Negative)/[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership (Dec 31, 2021)	Consolidated Approach
Speedon Network Ltd	100.00%	Full Consolidation
Maharashtra Transmission Communication Infrastructure Ltd	64.98%	Equity Method
Sterlite Tele systems Ltd	100.00%	Full Consolidation
Sterlite Innovative Solutions Ltd	100.00%	Full Consolidation
STL Digital Ltd (Erstwhile "Sterlite Tech Connectivity Solutions Ltd")	100.00%	Full Consolidation
Sterlite Tech Cables Solutions Ltd	100.00%	Full Consolidation
Sterlite Global Ventures (Mauritius) Ltd	100.00%	Full Consolidation
Jiangsu Sterlite and Tongguang Fibre Co Ltd	75.00%	Full Consolidation
Sterlite (Shanghai) Trading Co Ltd	100.00%	Full Consolidation
Metallurgica Bresciana S.p.A.	100.00%	Full Consolidation
Elite core Technologies (Mauritius) Ltd	100.00%	Full Consolidation
Elite core Technologies SDN. BHD	100.00%	Full Consolidation
Sterlite Technologies UK Ventures Ltd	100.00%	Full Consolidation
Sterlite Tech Holding Inc.	100.00%	Full Consolidation
Sterlite Technologies Inc.	100.00%	Full Consolidation
Impact Data Solutions Ltd	80.00%	Full Consolidation
Impact Data Solutions B.V.	80.00%	Full Consolidation
Vulcan Data Centre Solutions Ltd	80.00%	Full Consolidation
PT Sterlite Technologies Indonesia	100.00%	Full Consolidation
Sterlite Technologies DMCC	100.00%	Full Consolidation
Sterlite Technologies Pty. Ltd	100.00%	Full Consolidation
STL Edge Networks Inc.	100.00%	Full Consolidation
STL Networks Ltd	100.00%	Full Consolidation
STL Optical Interconnect S.p.A.	100.00%	Full Consolidation
Optotec S.p.A.	100.00%	Full Consolidation
Optotec International S.A.	100.00%	Full Consolidation
MB Maanshan Special Cable Ltd	40.00%	Full Consolidation
ASOCS	12.50%	Equity Method
Sterlite Conduspar Industries Ltd	58.05%	Equity Method
STL UK holdco Limited	100%	Full Consolidation
STL Solutions Germany gmbh	100%	Full Consolidation
STL Networks Service Inc. US	100%	Full Consolidation
STL Tech Solutions Limited	100%	Full Consolidation
Clearcomm Group Limited	80%	Full Consolidation

Source: Company

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